COMMUNITY PLANNING AND DEVELOPMENT
LOCAL HOUSING POLICY GRANTS
2017 Summary Statement and Initiatives
(Dollars in Thousands)

LOCAL HOUSING POLICY GRANTS	Budget Authority	Obligations	Outlays
2017 Request (Mandatory)...........	$300,000	$300,000	$6,000

1. What is this request?

For fiscal year 2017, the Department requests $300 million in mandatory appropriations for a new Local Housing Policy Grants program. This program would provide grants to states, localities and regional coalitions of localities to support local efforts to increase economic growth and access to jobs by expanding housing supply.

2. What is this program?

The initiative will fund competitive grants awarded to localities and regional coalitions of localities that demonstrate an ability to execute and carry out policy, program and regulatory streamlining initiatives, such as design options, process changes, and land use regulations, that serve to create a more elastic and diverse housing supply. The funding would allow localities to address any activities needed to support the new policy, program or regulatory initiatives, e.g., infrastructure expansion and/or improvements, as well as support market evaluations, code writing assistance, design options, stakeholder outreach and education, and implementation. Funds would also establish a learning network that would provide ongoing capacity building to the organizations and entities, facilitate shared learning opportunities among similar cohorts, and share or disseminate the results of learning and resulting effective best practices.

Eligible Grantees and Activities

The Local Housing Policy Grants initiative will support a range of transformative activities in states, regions and localities across the nation. It will invite states, localities, and regional coalitions to apply for flexible funding to implement policies and practices that improve housing supply elasticity generally, and expand the supply of well-located, affordable housing. States and localities would apply for this funding based on the strength of their in-process, proposed, or planned reforms and policies to reduce barriers to housing development and increase housing supply elasticity and affordability, while demonstrating and strengthening connections between housing, transportation, and workforce planning.

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Given the role of some states in enabling local reforms, the competition will encourage local, regional, and/or state-level cooperation. Applicants would likely also be local jurisdictions or regional coalitions of local jurisdictions, which control the housing delivery system, often applying in tandem with a regional authority to ensure that housing and transportation policy changes are not made in isolation of the larger regional economy.

The competition would provide resources to communities that are beginning to experience economic growth, and encourage them to build strong regulatory and policy reforms into their growth strategy to support a more elastic supply of housing at all income levels as the economy grows, helping them avoid the traps that the costliest markets now experience, with a forward-looking approach to ensuring a jobs-housing balance. Finally, the competition would be supported by a learning network among recipients and highly competitive applicants to facilitate problem solving and accelerated learning and implementation. Strong metrics would be developed and built into the program to measure the impact of the interventions.

The overall pool of eligible applicants will include states, local jurisdictions and regional coalitions of local jurisdictions where applicants can show rising housing costs or the reasonable expectation that costs will rise, using Census and other data. They will need to show a pattern of jobs/housing imbalance, and their proposals must include comprehensive strategies to increase the elasticity of supply within their housing market across all incomes. The applicants will work with key participants, including the development community, local agencies or non-profits administering grant components, services or other key programs, key employers, academics and researchers. Applicants will be required to identify local strengths and challenges, propose comprehensive solutions and establish strong collaborative partnerships to address the nexus of housing, affordability, transportation, employment and economic mobility.

Grant funds will primarily fund the transformation of state and local housing delivery systems to create a more elastic and diverse housing supply. The funds can be used to plan, develop and carry out policy, program and regulatory streamlining initiatives that lower the housing cost curve and make the housing supply delivery system work more effectively and efficiently. The funding would allow localities to address any needs that arise from the new policy, program or regulatory initiatives, e.g., infrastructure expansion and/or improvements, as well as support market evaluations, code writing assistance, design options, stakeholder outreach and education, and implementation.

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<u>Leveraging and Coordination</u>

The program will require matching funds from state, local or private sources. It will also leverage funds from other HUD programs, including the Community Development Block Grant (CDBG) program, HOME Investment Partnerships (HOME) program and potentially other federal housing programs.

In order to encourage local innovation, learn from local experience, and better align multiple HUD and other federal programs and reduce federal barriers, HUD will work in partnership across federal agencies and provide resources and tools to help communities realize their own visions for building more prosperous, affordable and economically vital regions. For instance, in order to better connect housing to jobs, the Department will work to coordinate federal housing and transportation investments with local land use decisions in order to reduce transportation costs for families, improve housing affordability, save energy, and increase access to housing and employment opportunities. By ensuring that housing is located near job centers and affordable, accessible transportation, we will nurture more competitive and vital communities – which provide opportunities for people to live, work, and access the benefits of a growing economy.

The Department will place a strong emphasis on coordination with other federal agencies, notably the Departments of Transportation, Agriculture, Labor, Commerce, and the Environmental Protection Agency and others, to leverage additional resources. Where appropriate, HUD will work in partnership with grantees and its federal partners to address regulatory and statutory barriers to coordinating these programs and other aspects of the housing delivery system. This proposal will include legislative waiver authority needed to provide participating localities with the flexibility needed to unify grants and streamline the provision of housing, transportation, and other grant dollars.

3. Why is this program necessary and what will we get for the funds?

A more diverse and responsive housing stock is needed in order to ensure that the national economy continues its recent pattern of growth. While some local housing markets are adequately supplied, in general, the national housing market suffers from an imbalance of housing stock that corresponds to prevailing income levels and demographic changes. This imbalance inhibits employers' ability to identify and secure needed resources to expand. In particular, the need for multifamily housing is on the rise.[1] According to the Bipartisan Policy Center's *Demographic Challenges and Opportunities for U.S. Housing Markets* (March 2012), the demand for rental housing is growing and that trend will continue as those under 35 years of age form new households of their own. Despite the increasing need, the supply of rental housing is generally not keeping up. According to the National Multifamily Housing Council, roughly 300,000 new apartments are needed to meet demand annually, but just 130,000 units were built in 2011. The gap

[1] *Bending the Cost Curve: Solutions to Expand the Supply of Affordable Rentals*, Urban Land Institute Terwilliger Center for Housing; Enterprise, November 2013.

is even more dramatic when it comes to affordable rental housing, with a shortfall of 3.9 million fewer units than demanded by the 11.2 million extremely low-income renters (as of 2013), according to *The State of the Nation's Housing 2015*.[2]

Some points in the *Worst Case Housing Needs 2015: Report to Congress*[3] include:

- Despite a national shortage of affordable rental housing, only one in four families eligible for federal rental assistance programs receives such assistance. Among very low-income renter households that lacked assistance in 2013, 7.7 million had worst case housing needs resulting from severe rent burden (paying more than one-half of their monthly income for rent) or living in severely inadequate housing units. From 2003-2013, worst case needs have increased by 49 percent as public-sector housing assistance and private-sector housing development have substantially failed to keep up with the growing demand for affordable rental housing.
- As worst case housing needs have increased and the level of housing assistance remains relatively flat, there is a wide gap between the number of assisted units and the number of households with severe housing needs. Approximately two very low-income households have worst case needs for every one that receives rental assistance. Across diverse geographic areas, there is a strong inverse correlation between greater prevalence of worst case needs and greater prevalence of housing assistance among very low-income renters.
- The gap in supply of affordable rental units relative to need has been growing for decades; worst case needs are common in every region and metropolitan category across the United States. Nationwide 41.7 percent of very low-income renters had worst case housing needs in 2013. Only 65 affordable units are available per 100 very low-income renters and 39 units per 100 extremely low-income renters. Availability is restricted because higher income renters occupy 40 percent of the stock affordable for renters with incomes of 0 to 30 percent of median, and 38 percent of stock affordable of 30 to 50 percent of median income. Available rental stock, even at higher rent levels, is being absorbed rapidly, reducing the overall rental vacancy rate from 10.9 percent in 2009 to 9.8 percent in 2011 and 8.4 percent in 2013.

The delivery of housing is impacted by a number of procedures, regulations and policies that can inhibit development, instituted at every level of the housing delivery system and at all points in the development process.

As Jason Furman, the Chairman of the Council of Economic Advisors said in a recent speech to the Urban Institute:

> Some land use regulations can be beneficial to communities and the overall economy. There can be compelling environmental reasons in some localities to limit high-density or multi-use development. Similarly, health and safety concerns—such as an area's air traffic patterns, viability of its water supply, or its geologic stability—may merit height and lot size restrictions. But in other cases, zoning regulations and other local barriers to housing development allow a small number

[2] *The State of the Nation's Housing 2015*, Joint Center for Housing Studies, Harvard University: 2015.
[3] Worst Case Housing Needs: 2015 Report to Congress: http://www.huduser.gov/portal/publications/affhsg/wc_HsgNeeds15.html

> of individuals to capture the economic benefits of living in a community, thus limiting diversity and mobility. The artificial upward pressure that zoning places on house prices—primarily by functioning as a supply constraint—also may undermine the market forces that would otherwise determine how much housing to build, where to build, and what type to build, leading to a mismatch between the types of housing that households want, what they can afford, and what is available to buy or rent.[4]

Over the past three decades, the cost curve for housing has risen, impacted at several points in the housing delivery system, particularly in the high-growth metropolitan areas increasingly fueling the national economy.[5,6] These impacts to the housing delivery system, including regulation, policies and practices, collectively reduce the ability of housing markets to respond elastically to housing demand – <u>decreasing housing affordability</u> for working families, <u>increasing inequality</u> by reducing less-skilled workers access to high-wage labor markets, <u>increasing federal budget costs</u> by raising the cost of HUD housing assistance, <u>decreasing overall employment</u> by restricting migration, and <u>reducing GDP growth</u> by driving labor migration away from productive regions. A study by Enrico Moretti, a professor at University of California, Berkely, suggests that constraints to housing supply may be responsible for up to a 13 percent decline in aggregate economic output from 1964 to 2009, and researchers at the University of Pennsylvania and the Federal Reserve have recently provided new evidence that local regulations are drastically reducing economic efficiency.[7,8]

Many cities and other localities recognize this issue, and are independently attempting to address it. According to the American Planning Association, an estimated 20 percent of major cities have undertaken comprehensive revisions of their zoning regulations in the past decade, in part to address the need to expand the housing supply and remove unnecessary barriers and costs to housing. The many jurisdictions interested in revising their often 1950's era zoning codes increasingly recognize that updating their policies can lead to more new housing construction, including multifamily rental construction, better leveraging of limited financial resources, and increased connectivity between housing to transportation, jobs and amenities. However, these jurisdictions often struggle to effectuate these needed changes and are frequently working in isolation, typically pulling one lever (e.g., zoning reform) of the many that could collectively impact housing supply and affordability. Moreover, action in one jurisdiction can be undermined by broader regional decisions, or those of adjacent localities. Federal assistance to improve information sharing, learning, planning and broad community engagement can mitigate negative impacts that outdated regulation, policies and practices can have on equity and the economy.

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[4] Available at: https://m.whitehouse.gov/sites/default/files/page/files/20151120_barriers_shared_growth_land_use_regulation_and_economic_rents.pdf

[5] Ganong and Shoag (2012) use the number of state appellate court cases containing the phrase "land use" (as a fraction of case volumes) as a measure of changes in regulatory barriers. This measure at the state level increased by an average of 47% between 1980 and 2010.

[6] Six of the 9 most productive metro areas over 1 million in population have moderate- or highly-regulated residential development climates, as shown by HUD analysis of BEA and Wharton Residential Land Use Regulation Index. Productivity is measured by real GDP per capita, and moderately or highly-regulated is defined as a mean metro WRLURI of 0.5 or above.

[7] Moretti and Hsieh (2014). Available at http://users.nber.org/~confer/2014/SI2014/EFJK/Hsieh_Moretti.pdf

[8] Gyourko and Molloy (2014). Available at http://www.nber.org/papers/w20536.pdf

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The goal of the Local Housing Policy Grants initiative is to demonstrate that concentrated and coordinated efforts across a number of metropolitan housing markets can significantly expand the supply and affordability of housing, increase access to high-wage labor markets, increase employment and support continued GDP growth by retaining labor in the nation's most productive regions. Federal interagency coordination, combined with local and state-level partnerships, have demonstrated the value--at every level of government--of better aligned policies; reduced regulatory barriers; cohort convening, capacity-building and learning; and dissemination of best practices.

4. How do we know this program works?

Administration and Evaluation

The Assistant Secretary for Community Planning and Development will administer the Local Housing Policy Grants initiative with a team drawn from other HUD offices including the Office of Economic Resilience within Community Planning and Development, Policy Development and Research, Fair Housing and Equal Opportunity, and Housing. This will help build a more unified approach to using the housing delivery system as means of reforming and expanding the elasticity and supply of housing.

HUD would fund baseline research and evaluation as part of the Local Housing Policy Grants initiative. It is expected that this will inform a broad range of housing programs as well as other federal interventions. Each grantee for the program would be required to budget a reasonable amount of funds as part of their program to ensure they could provide the appropriate data needed to inform this larger research effort. HUD proposes to conduct a process evaluation describing how the Local Housing Policy Grants initiative grantees use their federal grant resources to implement targeted place-based strategies aimed at expanding housing supply, reducing jobs/housing imbalance, and increasing access to quality, affordable housing. Because each grantee will create and execute policy, program and regulatory streamlining initiatives specific to that locality, a key component of the evaluation will be to assess and classify the specific types of activities implemented within each grantee community. This evaluation will seek to understand the logic model for transformation established by each grantee, the process by which that model is implemented, and the initial outcomes of that implementation.

Performance Indicators

- Grants awarded on a timely basis with effective implementation requirements including coordination with a broad array of stakeholders.
- Discrete and targeted policy, program and practice changes that lower costs at specific points in the housing delivery system, relative to a pre-implementation baseline.
- Increases in housing production across a range of tenancies over an established baseline.
- Improving jobs/housing balance over an established local baseline.